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ATLANTA AND WEST POINT RAIL ROAD COMPANY / ANNUAL REPORT / 1976

1976

ANNUAL REPORT OF
ATLANTA AND WEST POINT RAIL ROAD COMPANY
FOR THE YEAR ENDED DECEMBER 31, 1976

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1976 ANNUAL REPORT

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BOARD OF DIRECTORS J. Arch Avary, Jr., Atlanta, Georgia
Edward G. Cole, Jr., Newnan, Georgia
Millard S. Jones, Jr., Atlanta, Georgia
Clyde A. Lilly, Jr., Birmingham, Alabama
Terry P. McKenna, Atlanta, Georgia
Prime F. Osborn, Jacksonville, Florida
Carl J. Reith, Atlanta, Georgia
W. Thomas Rice, Jacksonville, Florida

EXECUTIVE COMMITTEE Millard S. Jones, Jr.
Prime F. Osborn
W. Thomas Rice

THE STAFF Millard S. Jones, Jr., President and General Manager
Albert A. Ward, Jr., Secretary
C. Hayden Edwards, Treasurer
John E. MacCarthy, Comptroller
Carl S. Graham, Traffic Manager
Terence O'Brien, General Superintendent-Chief Engineer
Edgar J. Haley, Chief Mechanical Officer-Purchasing Agent
Travis P. King, Asst. to General Manager-Director of Personnel
Ralph W. Williams, District Claims Agent-Family Lines
O. Glenn Bass, Manager of Industrial Development
Herbert B. Bainbridge, Jr., Real Estate Agent
Heyman and Sizemore, General Counsel

TO OUR STOCKHOLDERS:

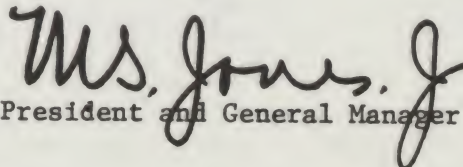
We are encouraged by the complete change in the financial picture when comparing the results of 1976 with 1975. Net income for the year amounted to \$363,467 as compared with a loss of \$500,339 for the preceding year.

This improved showing was principally the result of an increase in freight revenue in excess of \$1,917,000, while operating expenses were held to an increase of \$540,000. Notable among our expenses was the strong emphasis placed on our track and roadbed maintenance, which included the installing of 17,892 crossties and 5,328 switch and bridge ties.

Wage increases and fringe benefits secured by railroad employees added substantially to the cost of providing rail service. These extra costs were somewhat offset by greater efficiency and the application of better methods and machinery, resulting in an operating ratio of 76.71.

The financial strength of your Company enabled us to pay a 6 percent dividend to its shareholders in 1976 as compared to a 4 percent dividend in 1975. The year 1977 has proved profitable to your railroad in the first quarter, this in face of the coldest winter on record. We stand ready to take advantage of a rising economy and to participate in the growth of the area we serve.

We take pleasure in expressing our appreciation for the loyal and faithful services rendered by the Officers and Employees of the Company in the performance of their duties.


President and General Manager

Atlanta, Georgia

May 16, 1977

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

COMMONWEALTH BUILDING
LOUISVILLE, KENTUCKY 40202

ACCOUNTANTS' OPINION

Atlanta and West Point Rail Road Company:

We have examined the balance sheets of Atlanta and West Point Rail Road Company as of December 31, 1976 and 1975 and the related statements of income, retained income, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Company at December 31, 1976 and 1975 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

April 1, 1977

Haskins & Sells

BALANCE SHEET
DECEMBER 31, 1976 AND 1975

- A S S E T S -

	1976	1975
CURRENT ASSETS:		
Cash	\$ 281,330	\$ 330,418
Temporary cash investments, at cost, which approximates market	900,000	900,000
Accounts receivable	1,255,599	1,394,182
Material and supplies, at average cost	226,791	148,502
Other current assets	<u>17,678</u>	<u>13,798</u>
Total current assets	<u>2,681,398</u>	<u>2,786,900</u>
SPECIAL FUNDS AND INVESTMENTS:		
Insurance and other funds	12,799	10,650
Investments, at cost	<u>7,605</u>	<u>7,605</u>
Total special funds and investments	<u>20,404</u>	<u>18,255</u>
PROPERTIES:		
Transportation property:		
Road	6,977,137	6,905,044
Equipment	8,461,371	8,736,091
Miscellaneous property	<u>756,744</u>	<u>793,292</u>
Total	16,195,252	16,434,427
Less: Accumulated depreciation and amortization	<u>6,073,780</u>	<u>5,946,204</u>
Properties - net	<u>10,121,472</u>	<u>10,488,223</u>
OTHER ASSETS AND DEFERRED CHARGES	<u>125,107</u>	<u>230,045</u>
TOTAL	<u><u>\$12,948,381</u></u>	<u><u>\$13,523,423</u></u>

See notes to financial statements.

BALANCE SHEET
DECEMBER 31, 1976 AND 1975

- LIABILITIES AND SHAREHOLDERS' EQUITY	1976	1975
CURRENT LIABILITIES:		
Demand note payable to bank		\$ 165,000
Accounts and wages payable	\$ 1,819,871	2,238,835
Interest payable	16,016	20,009
Federal income taxes	52,897	
Accrued payroll, property, and other taxes	25,606	
Long-term debt due within one year	<u>349,298</u>	<u>353,439</u>
Total current liabilities	<u>2,263,688</u>	<u>2,777,283</u>
 LONG-TERM DEBT DUE AFTER ONE YEAR	 <u>2,617,266</u>	 <u>2,962,425</u>
 CASUALTY AND OTHER RESERVES		 <u>36,240</u>
 OTHER LIABILITIES AND DEFERRED CREDITS:		
Deferred income taxes	269,666	177,703
Other liabilities and deferred credits	<u>74,034</u>	<u>61,696</u>
Total other liabilities and deferred credits	<u>343,700</u>	<u>239,399</u>
 SHAREHOLDERS' EQUITY:		
Capital stock, par value \$100 per share - authorized 25,000 shares; outstanding - 24,636 shares (no change during the two years)	2,463,600	2,463,600
Retained income	<u>5,260,127</u>	<u>5,044,476</u>
Total shareholders' equity	<u>7,723,727</u>	<u>7,508,076</u>
 TOTAL	 <u>\$12,948,381</u>	 <u>\$13,523,423</u>

See notes to financial statements.

STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
TRANSPORTATION REVENUES:		
Freight	\$8,163,754	\$6,246,371
Other	<u>144,805</u>	<u>167,433</u>
Total transportation revenues	<u>8,308,559</u>	<u>6,413,804</u>
TRANSPORTATION EXPENSES:		
Maintenance of way and structures	1,123,393	653,757
Maintenance of equipment	1,069,674	1,003,637
Traffic	177,761	222,921
Transportation	3,533,634	3,398,982
Other	<u>469,808</u>	<u>555,079</u>
Total	<u>6,374,270</u>	<u>5,834,376</u>
Taxes other than income taxes (principally payroll)	438,777	405,177
Equipment and joint facility rents - net	<u>1,128,845</u>	<u>1,049,611</u>
Total transportation expenses	<u>7,941,892</u>	<u>7,289,164</u>
INCOME (LOSS) FROM TRANSPORTATION OPERATIONS	<u>366,667</u>	<u>(875,360)</u>
OTHER INCOME:		
Miscellaneous rent and income from nonoperating property	141,578	138,769
Interest	66,507	76,612
Miscellaneous	<u>109,194</u>	<u>104,343</u>
Total other income	<u>317,279</u>	<u>319,724</u>
Total	683,946	(555,636)
OTHER CHARGES - INTEREST	<u>224,970</u>	<u>294,110</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>458,976</u>	<u>(849,746)</u>
PROVISION (CREDIT) FOR INCOME TAXES:		
Current	3,546	(262,747)
Deferred	<u>91,963</u>	<u>(86,660)</u>
Total	<u>95,509</u>	<u>(349,407)</u>
NET INCOME (LOSS)	<u>\$ 363,467</u>	<u>\$ (500,339)</u>
NET INCOME (LOSS) PER SHARE	<u>\$ 14.75</u>	<u>\$ (20.31)</u>

STATEMENT OF RETAINED INCOME
FOR THE YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
Balance at beginning of year	\$5,044,476	\$5,643,359
Net income (loss)	<u>363,467</u>	<u>(500,339)</u>
Total	5,407,943	5,143,020
Cash dividends (\$6.00 per share in 1976; \$4.00 per share in 1975)	<u>147,816</u>	<u>98,544</u>
Balance at end of year	<u>\$5,260,127</u>	<u>\$5,044,476</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
SOURCE OF FUNDS:		
Net income (loss)	\$ 363,467	\$ (500,339)
Add (deduct) items not requiring (or providing) a current outlay of working capital:		
Depreciation	454,615	441,787
Deferred income taxes	91,963	(86,660)
Decrease in casualty and other reserves	(36,240)	(53,560)
Other	<u>7,344</u>	<u>(6,506)</u>
Working capital provided from (or used in) operations	881,149	(205,278)
Decrease in other assets and deferred charges	104,938	
Salvage from disposition of depreciable properties	125,662	23,693
Other sources	<u>12,338</u>	<u>1,905</u>
Total source of funds	<u>1,124,087</u>	<u>(179,680)</u>
USE OF FUNDS:		
Reduction of long-term debt	345,159	353,411
Dividends on capital stock	147,816	98,544
Additions to properties	220,870	93,122
Increase in other assets and deferred charges		131,761
Other uses - net	<u>2,149</u>	<u>22,591</u>
Total use of funds	<u>715,994</u>	<u>719,429</u>
INCREASE (DECREASE) IN WORKING CAPITAL, AS BELOW	408,093	(899,109)
WORKING CAPITAL, BEGINNING OF YEAR	<u>9,617</u>	<u>908,726</u>
WORKING CAPITAL, END OF YEAR	<u>\$ 417,710</u>	<u>\$ 9,617</u>
INCREASE (DECREASE) IN CURRENT ASSETS:		
Cash and temporary cash investments	\$ (49,088)	\$ (270,170)
Accounts receivable	(138,583)	506,924
Material and supplies	78,289	(10,372)
Other	<u>3,880</u>	<u>(2,500)</u>
Net	<u>(105,502)</u>	<u>223,882</u>
INCREASE (DECREASE) IN CURRENT LIABILITIES:		
Accounts and wages payable	(418,964)	1,178,323
Federal income taxes	52,897	
Long-term debt due within one year	(4,141)	(12,446)
Other	<u>(143,387)</u>	<u>(42,886)</u>
Net	<u>(513,595)</u>	<u>1,122,991</u>
INCREASE (DECREASE) IN WORKING CAPITAL, AS ABOVE	<u>\$ 408,093</u>	<u>\$ (899,109)</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Railroad properties are stated at estimated original cost, determined by the Interstate Commerce Commission ("ICC") valuations, plus additions and betterments at cost and less retirements since the dates of valuation.

The current cost of repairs and renewals of parts of the track structure is charged to maintenance expense and additions and betterments to the structure are capitalized. Charges to operating expenses for depreciation (straight-line basis) of railroad property, except track accounts, are at annual percentage rates approved by the ICC. Charges for depreciation of road and equipment and for repairs and renewals of the track structure were as follows:

	<u>1976</u>	<u>1975</u>
Depreciation	\$ 454,615	\$441,787
Repairs and renewals of track structure	<u>552,176</u>	<u>181,357</u>
Total	<u>\$1,006,791</u>	<u>\$623,144</u>

The Company uses the "flow-through" method of accounting for investment tax credits (see Note 4).

2. Related Parties

Seaboard Coast Line Railroad Company ("SCL") and Louisville and Nashville Railroad Company ("L&N") jointly control approximately 63% of the Company's outstanding capital stock through direct ownership or indirect ownership under their lease of the Georgia Railroad. SCL and L&N similarly control approximately 66% of the outstanding capital stock of The Western Railway of Alabama, a connecting carrier.

As a result of this relationship, the Company, in the normal conduct of its transportation business, is a party to numerous transactions with the above mentioned carriers. The more significant transactions include interline revenue, operation of joint facilities, and joint trackage rights.

3. Deferred Income Taxes

Deferred income tax expense results from the tax effect of all material timing differences (transactions which enter into the determination of income for financial reporting purposes in one year and of taxable income in a different year). The tax effect of the items included in the deferred tax (credit) provision for 1976 and 1975 was as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

3. Deferred Income Taxes (Continued)

	<u>1976</u>	<u>1975</u>
Depreciation deductions for the current year in excess of amounts recorded in the Company's accounts	\$12,794	\$ 12,794
Depreciation recorded in the Company's accounts for the current year on assets fully amortized for income tax purposes in prior years	(14,021)	(14,022)
Amounts credited in the Company's accounts to casualty and other reserves greater (lesser) than amounts deductible for income tax purposes	<u>93,190</u>	<u>(85,432)</u>
Net	<u>\$91,963</u>	<u>\$ (86,660)</u>

4. Federal Income Taxes

The Company's federal income tax returns have been examined and all assessments settled through the year 1972.

Investment tax credits reduced the federal income taxes payable for 1976 by \$53,000 and reduced federal income tax refund for 1975 by \$69,000. At December 31, 1976, there was a carryover to future periods for tax purposes of unused investment credits amounting to approximately \$43,000. The expiration dates for such investment credit carryovers are as follows: 1980, \$15,000; 1982, \$3,000; 1983, \$25,000.

The total provision (credit) for federal income taxes, as a percentage of pre-tax earnings, is lower than the applicable corporate tax rate in varying amounts for each year due primarily to investment tax credits and capital gains rates.

5. Long-Term Debt

Long-term debt is comprised of equipment obligations maturing at various dates through 1989, with interest rates from 4.2 per cent to 7.125 per cent. Interest rates on certain of the obligations are subject to prime rate variations.

Required annual principal payments for the five years 1977 - 1981 are as follows: \$349,000, \$341,000, \$334,000, \$310,000, and \$282,000, respectively.

Substantially all railway equipment is subject to the terms of the above long-term debt.

6. Pension Plan

The Company has an unfunded noncontributory pension arrangement for officers and supervisory employees who retired prior to January 1, 1976, but reserves the right to discontinue the plan at any time. Related charges to operating expenses in 1976 and 1975, representing amounts paid to retired employees, were

NOTES TO FINANCIAL STATEMENTS (Continued)

6. Pension Plan (Continued)

approximately \$47,000 and \$42,000, respectively. The amounts required to provide for current and past service costs are not material.

During 1976 the Company adopted a funded pension plan for the benefit of officers and supervisory employees retiring on or after January 1, 1976. This plan supplements benefits received by these employees under the Railroad Retirement Act. It is the policy of the Company to fund pension costs accrued. Pension costs for 1976 amounted to approximately \$74,000, including amortization of prior service costs over 10 years. Based upon the latest actuarial report available (January 1, 1977), the actuarially computed value of vested benefits exceeded the total of the pension fund by approximately \$121,000 as of that date.

7. Commitments and Contingent Liabilities

The Company carries a service interruption policy under which it will be entitled to indemnity for certain work stoppage losses. In the event such losses are sustained by other railroads holding similar policies, the Company may be obligated to pay additional premiums, subject to a maximum of \$190,000, at December 31, 1976.

The Company leases rolling stock under noncancelable leases expiring at various dates to 1982. Annual minimum rentals under such leases for the six years 1977 - 1982 are as follows: \$176,000, \$176,000, \$172,000, \$156,000, \$45,000, and \$16,000, respectively. Total rent expense charged to operations for such leases was \$175,806 in 1976 and \$184,998 in 1975.

OPERATING REVENUES

Year	Freight	Passenger	Mail and Express	Other	Net Joint Facility Cr.	Total Operating Revenues
1967	\$3,192,311	\$ 97,092	\$ 187,794	\$117,924	\$ 57,423	\$3,652,544
1968	3,435,511	66,478	119,954	111,796	46,543	3,780,282
1969	3,479,492	43,230	86,907	85,310	48,291	3,743,230
1970	3,980,724	1,666	2,005	73,543	43,097	4,101,035
1971	4,778,211			159,677	29,474	4,967,362
1972	4,798,999			129,076	15,867	4,943,942
1973	6,495,484			366,150	21,328	6,882,962
1974	7,528,360			293,863	22,943	7,845,166
1975	6,246,371			142,347	25,086	6,413,804
1976	8,163,754			121,559	23,246	8,308,559

OPERATING EXPENSES

Year	Maintenance of Way and Structures	Maintenance of Equipment	Transportation	Other	Total Operating Expenses	Operating Ratios
1967	\$ 457,273	\$ 662,570	\$1,469,887	\$ 511,311	\$3,101,041	84.90
1968	449,287	626,747	1,367,494	458,266	2,901,794	76.76
1969	504,623	602,892	1,337,764	455,097	2,900,376	77.48
1970	504,724	571,060	1,267,814	458,552	2,802,150	68.33
1971	586,762	596,315	1,534,823	562,528	3,280,428	66.04
1972	625,002	762,094	1,730,908	630,941	3,748,945	75.83
1973	809,033	853,736	2,735,790	627,193	5,025,752	73.02
1974	863,220	935,563	3,212,240	655,010	5,666,033	72.22
1975	653,757	1,003,637	3,398,983	778,000	5,834,377	90.97
1976	1,123,393	1,069,674	3,533,634	647,569	6,374,270	76.71

INCOME

Year	Net Revenue from Railway Operations	Railway Tax Accruals	Net Equipment and Joint Facility Rents - Dr.	Net Other Income (Deduction)	Fixed Charges	Net Income (Loss)
1967	\$ 551,503	\$ 219,966	\$ 363,537	\$ 115,146	\$ 56,384	\$ 26,762
1968	878,488	223,255	498,517	(177,153)	70,868	(91,305)
1969	842,854	222,131	388,459	187,097	129,601	289,760
1970	1,298,885	490,340	324,413	1,192,816	154,391	1,522,557
1971	1,686,934	621,492	372,637	178,432	126,972	744,265
1972	1,194,997	439,500	318,150	201,640	104,606	534,381
1973	1,857,210	494,985	919,906	235,360	218,947	458,732
1974	2,179,133	667,715	1,072,817	301,938	332,277	408,262
1975	579,428	55,770	1,049,611	319,724	294,110	(500,339)
1976	1,934,289	534,286	1,128,845	317,279	224,970	363,467

CLASSIFICATION OF FREIGHT TRAFFIC

CommodityTons			
	Originating on Road	Received From Connecting Carriers	Total Carried	* Gross Freight Revenue
Farm Products	1,691	197,079	198,770	\$ 374,421
Forest Products		1,775	1,775	2,719
Fresh Fish and Other Marine Products		260	260	270
Metallic Ores	97	368,211	368,308	468,949
Coal	57	337,004	337,061	255,686
Nonmetallic Minerals, except Fuels	100	669,006	669,106	694,485
Ordnance and Accessories		1,359	1,359	4,227
Food and Kindred Products	1,443	401,747	403,190	608,177
Tobacco Products		8,349	8,349	18,105
Textile Mill Products	1,907	22,496	24,403	68,300
Apparel & Other Finished Textile Products, including Knitted		4,761	4,761	9,573
Lumber & Wood Products, except Furniture	122,865	187,369	310,234	473,114
Furniture and Fixtures	22	20,891	20,913	73,645
Pulp, Paper and Allied Products	1,183	667,016	668,199	1,177,412
Printed Matter		241	241	216
Chemicals and Allied Products	5,582	1,645,688	1,651,270	1,825,293
Petroleum and Coal Products	283	307,608	307,891	445,476
Rubber & Miscellaneous Plastic Products	3,276	23,578	26,854	124,129
Leather and Leather Products		59	59	108
Stone, Clay, Glass & Concrete Products	8,095	316,671	324,766	536,493
Primary Metal Products	846	75,149	75,995	120,522
Fabricated Metal Products, except Ordnance Machinery and Transportation	4,293	61,487	65,780	140,929
Machinery, except Electrical	47	7,790	7,837	34,442
Electrical Machinery, Equipment & Supplies		7,743	7,743	19,306
Transportation Equipment	673	28,115	28,788	87,059
Instruments, Photographic and Optical Goods, Watches and Clocks		491	491	920
Miscellaneous Products of Manufacturing	8	3,453	3,461	15,160
Waste and Scrap Materials	68,792	85,767	154,559	361,429
Miscellaneous Freight Shipments	87	1,585	1,672	5,456
Containers, Shipping, Returned Empty	45	2,516	2,561	5,787
Freight Forwarder Traffic		290	290	637
Shipper Association or Similar Traffic		4,315	4,315	7,806
Miscellaneous Mixed Shipments, except Forwarder and Shipper Association	3,177	204,675	207,852	377,394
Total, Carload Traffic	224,569	5,664,544	5,889,113	8,337,645
Small Packaged Freight Shipments	246	154	400	1,023
Total, Carload & Less than Carload Traffic	224,815	5,664,698	5,889,513	\$8,338,668

*Exclusive of overcharge claims and other adjustments, amounting to \$174,914.

MILEAGE OPERATED

Miles of road operated at December 31, 1976:

MAIN LINE:

Atlanta to West Point	85.59	
Hulsey Junction to Oakland City	<u>5.16</u>	90.75

TRACKAGE RIGHTS:

Central of Georgia Railway, Oakland Junction	.05	
Georgia Railroad (Atlanta Joint Terminals)	<u>2.02</u>	<u>2.07</u>
Total mileage operated		<u>92.82</u>

TRAIN, LOCOMOTIVE AND CAR MILES

CLASS	1976	1975	Increase or (Decrease)
TRAIN MILES			
Freight	<u>170,294</u>	<u>173,135</u>	<u>(2,841)</u>
TOTAL TRAIN MILES	<u>170,294</u>	<u>173,135</u>	<u>(2,841)</u>
LOCOMOTIVE MILES			
Freight	429,016	583,104	(154,088)
Switching	<u>37,221</u>	<u>43,414</u>	<u>(6,193)</u>
TOTAL LOCOMOTIVE MILES	<u>466,237</u>	<u>626,518</u>	<u>(160,281)</u>
FREIGHT CAR MILES			
Freight Loaded	8,109,387	6,846,940	1,262,447
Freight Empty	6,508,811	5,688,680	820,131
System Caboose	<u>108,895</u>	<u>55,842</u>	<u>53,053</u>
TOTAL FREIGHT CAR MILES	<u>14,727,093</u>	<u>12,591,462</u>	<u>2,135,631</u>



Atlanta and West Point Rail Road Company / The Western Railway of Alabama / Georgia Railroad





ATLANTA AND WEST POINT RAIL ROAD COMPANY